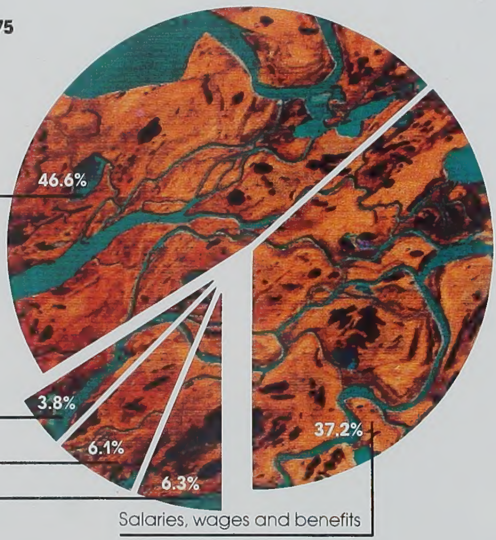
KENTING LIMITED AND SUBSIDIARIES

THE YEAR IN BRIEF

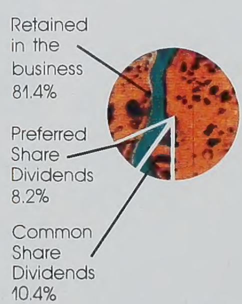
FINANCIAL HIGHLIGHTS

	1975	1974	PERCENTAGE CHANGE
Revenue	**$ 42,399,000**	$ 30,450,000	+ 39
Cash Flow from Operations	**6,879,000**	3,426,000	+ 101
Net income	**2,690,000**	1,333,000	+ 102
Net Income per Share	**3.38**	1.62	+ 109
Common Share Dividends	**279,000**	—	—
Dividends per Share	**.36**	—	—
Additions to Property and Equipment	**8,521,000**	3,627,000	+ 135
Working Capital	**4,104,000**	2,051,000	+ 100
Total Assets	**29,684,000**	21,292,000	+ 39
Income Taxes	**2,573,000**	1,235,000	+ 108
Term Debt	**6,598,000**	4,331,000	+ 52
Shareholders' Equity	**8,552,000**	6,580,000	+ 30
Equity per Common Share	**9.70**	6.56	+ 48

DISTRIBUTION OF THE 1975 SALES DOLLAR



Distribution of 1975 Net Income



OPERATIONAL HIGHLIGHTS

			Page
DIVISION'S EXPANDED	capital investments total 8.5 million dollars:		
	Drilling	$ 5,502,000	
	Construction	367,000	
	Geophysics and Mapping	1,982,000	
	Helicopters	670,000	
		$ 8,521,000	14
MAJOR DISPOSALS	Kenting Aviation and Kenting Big Indian sold; Arctic drilling rig joint venture terminated		1, 14

GLOSSARY OF RESOURCE TERMS

BIT CHANGE when a drill bit wears out it is removed from the hole and replaced. All drill pipe is pulled from the hole, threaded connections are broken generally in 60 or 90 foot "stands" and racked in the mast. This procedure is called "tripping".

CONNECTION TIME a drilling term to describe the addition of drill pipe as the bore hole is drilled.

DRILL PIPE a steel tube, with threaded connections on each end, in the range of 29 to 31 feet in length.

GATHERING SYSTEM a complex of gas or oil lines leading from individual wells to a compressor or pumping station which gathers the production for transmission into larger lines leading eventually to a large "trunk" line or storage facility.

GRAVIMETRICS a geophysical method of measuring the changes in the earth's gravitational field which may be caused by mineral or petroleum bearing structures. The instrument employed is a gravimeter or gravity meter.

MAGNETICS a geophysical method measuring the natural magnetic field, disturbances in which may be caused by geology favourable to the occurrence of petroleum or minerals. The instrument employed is a magnetometer.

MAST (DERRICK) the tall portable hoisting structure which allows addition and removal of drill stem.

SEISMICS a geophysical method using the generation, reflection or refraction detection, and analysis of elastic waves in the earth. The instrument employed is the seismograph.

SPECTROMETER geophysical instrument which records the radiation spectrum and relative intensities of gamma rays emitted by various radio-active minerals.

STAND a term to describe the 30, 60 or 90 foot lengths of pipe racked in the mast during a trip.

SUBSTRUCTURE RIG a rig which is transported in sections and assembled at the drill site — normally rigs with depth capacities of greater than 5,000 feet.

TAR OR OIL SANDS a mixture of sand, mineral matter, water and crude bitumen; a heavy black asphaltic hydrocarbon, highly viscous and containing sulphur nitrogen and trace metals.

TEST HOLE well drilled to determine if hydrocarbons or minerals are present.

TRAILER RIG is transported on attached wheels and is normally used for drilling holes of less than 5,000 feet.

GLOSSARY OF SELECTED ACCOUNTING TERMS

CASH FLOW FROM OPERATIONS working capital generated from operations before provision for actual income taxes; that is, net profit before extraordinary items and income taxes and before deduction of non-cash items (mainly depreciation).

CONTINGENT LIABILITY an obligation which may arise as a consequence of a future event, the occurrence of which is possible but not probable.

CURRENT ASSETS cash or other assets which will be either converted to cash or used in the conduct of business activities within one year of the balance sheet date.

CURRENT LIABILITIES liabilities which will be liquidated through cash payment or conduct of business activities within one year of the balance sheet date.

DEFERRED INCOME income which has been received but which involves incurring future costs and is more appropriately taken into income in future periods when these costs are incurred.

DEFERRED INCOME TAXES income taxes which may become payable in future years when expenses (mainly depreciation) claimed for tax purposes become less than those charged for accounting purposes. Provisions for such taxes are made by charges against income during years in which income tax deductions exceed amounts charged for accounting purposes.

DEPRECIATION a systematic charge against earnings intended to amortize the cost of property, plant and equipment (less estimated salvage values) over the useful life of such assets.

EQUITY BASIS a method of accounting for long-term investments under which an investor records his share of income or losses of the entity in which he has invested by increasing or decreasing the carrying value of the investment.

EXTRAORDINARY ITEMS profits or losses which are not typical of normal business activities and which are not expected to occur regularly over a period of years.

PAID IN SURPLUS the excess of the consideration attributable to the issuance of shares over the par value of those shares.

PERCENTAGE-OF-COMPLETION a method of accounting which results in the recording of contract profits on the basis of the amount of work the contractor has completed.

REDUCING BALANCE BASIS a method of depreciation which results in depreciation provisions being largest during the initial year of ownership of assets. Subsequent provisions decline progressively each year.

RETAINED EARNINGS the amount by which net income has exceeded dividends and losses.

TERM DEBT liabilities payable at times which are more than one year from the balance sheet date.

WORKING CAPITAL current assets less current liabilities.

DIRECTORS

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President
Allied Equipment Ltd. Calgary

S. W. ARMSTRONG + *
President
Canam Holdings Ltd. Calgary

A. C. JOHNSON
Retired Executive
Canadian Imperial Bank of Commerce Calgary

J. R. McCAIG
President
Trimac Limited Calgary

D. D. C. McGEACHY +
Corporate Director London, Ontario

D. A. McINTOSH *
Partner
Fraser & Beatty Toronto

A. E. PALLISTER
Vice President, Science and Development
Kenting Limited Calgary

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Chairman of the Board
Sandwell and Company Limited Vancouver

J. A. SCRYMGEOUR +
Chairman of the Board
Westburne International Industries Ltd.

A. VANDEN BRINK + *
President
Kenting Limited Calgary

+ Member, Executive Committee
* Member, Audit Committee

A. VANDEN BRINK
President

D. M. GRAVES
Executive Vice President

T. A. JONES
Vice President, Finance

A. E. PALLISTER
Vice President, Science and Development

K. C. GROGAN
Secretary Treasurer

J. F. MOORE
Assistant Secretary

G. W. OWEN
Assistant Secretary

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Royal Trust Co.

AUDITORS
Price Waterhouse & Co.

SOLICITORS
Fraser & Beatty - Toronto
Harradence and Company - Calgary

MAIN BANKERS
Canadian Imperial Bank of Commerce Calgary

STOCK EXCHANGE LISTINGS
Toronto Stock Exchange
Alberta Stock Exchange

TICKER SYMBOL
KAL

A. VANDEN BRINK - President

D. M. GRAVES - Executive Vice President

COVER PHOTO

Uranium — an alternate energy source

Canada's uranium reserves are estimated to total some 321,000 short tons of uranium oxide ore. 769.3 kgm of uranium metal are refined from each ton of ore. Historically, the time span between commencement of exploration and achievement of production from a discovery is approximately ten years. A real need for increased exploration has developed in Canada if we are to meet expanding domestic and foreign demands predicted for the future.

The photograph of uranyl nitrate was taken under polarized light, at a magnification of 25 times, by Barbara K. Deans, Ph.D. of Montreal.

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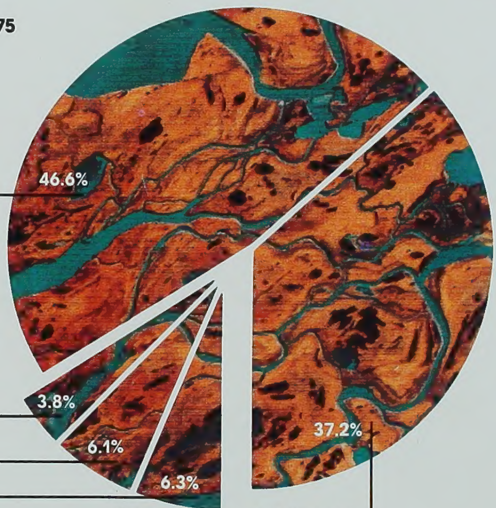
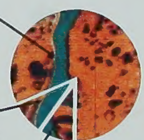


Distribution of 1975 Net Income



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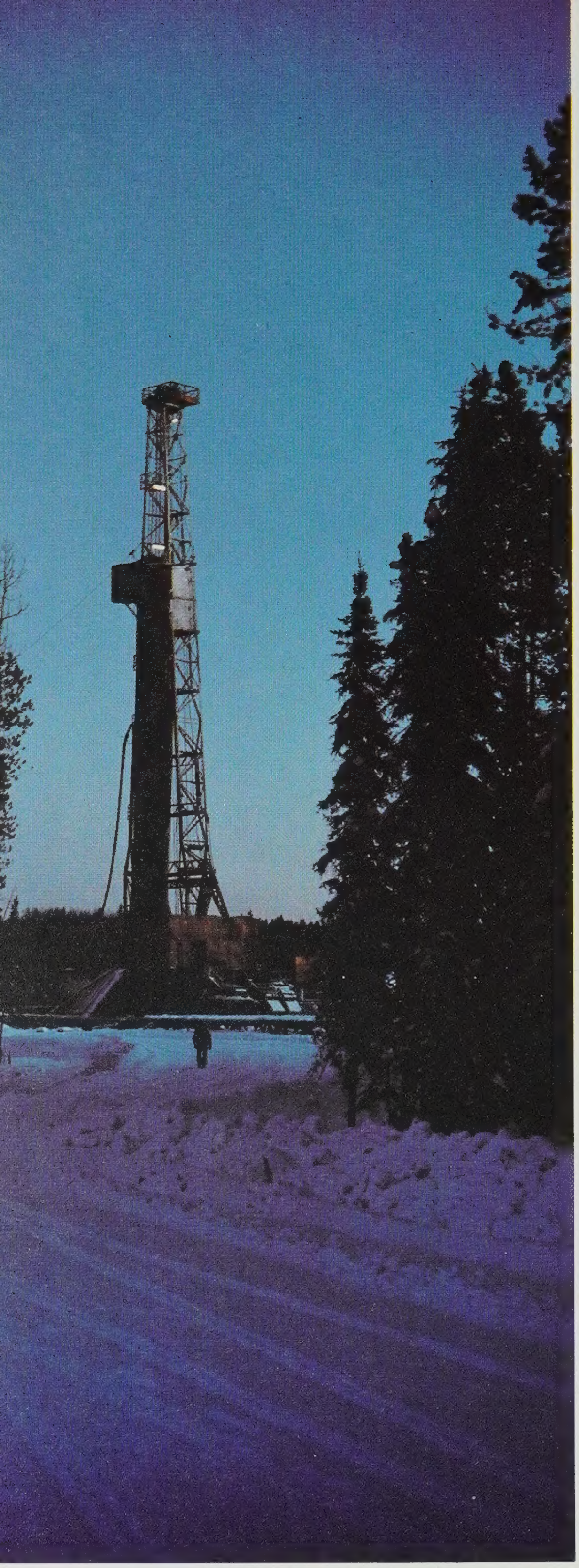
KENTING IN TWO HEMISPHERES

- OFFICES
- AIRPHOTO, MAPPING, AIRBORNE GEOPHYSICS OR FIELD SURVEY
- DRILLING
- HELICOPTERS
- PIPELINING AND CONSTRUCTION
- PETROLEUM, MINING OR ENGINEERING, GROUND OR MARINE GEOPHYSICS

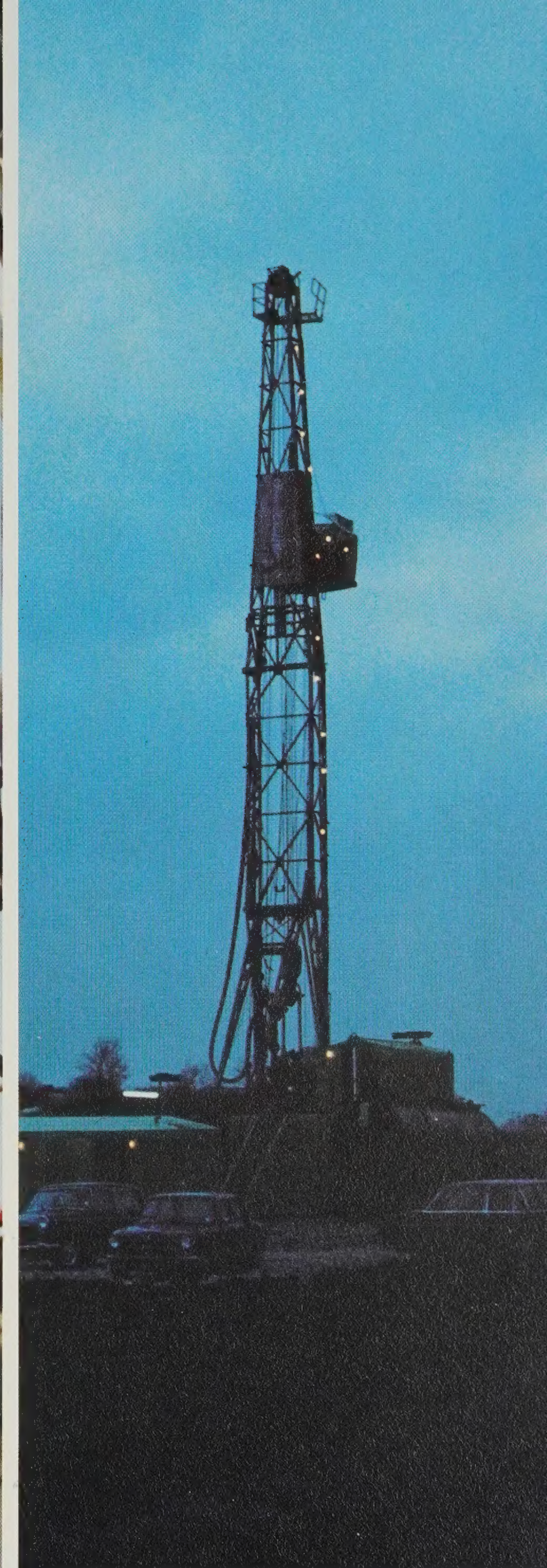


Kenting Drilling's Rig 1, a 14,500 foot unit on a winter project in the highly active exploration area west of Edmonton. Drill pipe is standing in the derrick while new drill bit is added.

Converted to a substructure rig from a trailer rig in the spring, Rig 9 drills its first hole in the rich agricultural region west of Edmonton in the early summer of 1975.

DRILLING

exploring for hydrocarbons and minerals in Canada, the United States and the United Kingdom.



The drilling crew of Rig 15, completes the addition of a drill stem at connection time, as the hole drilled at Wizard Lake nears total depth.

Arriving in the United Kingdom mid-year, Rig 17 drilled test holes for Britain's National Coal Board. The two rigs in England are operated by Kenting (U.K.) Limited.

New shops and offices for Kenting Drilling in Nisku were built to house the expanded division's maintenance facilities, parts inventory and staff. The division's name was changed early in 1976 from Kenting Petrolia Drilling to Kenting Drilling.

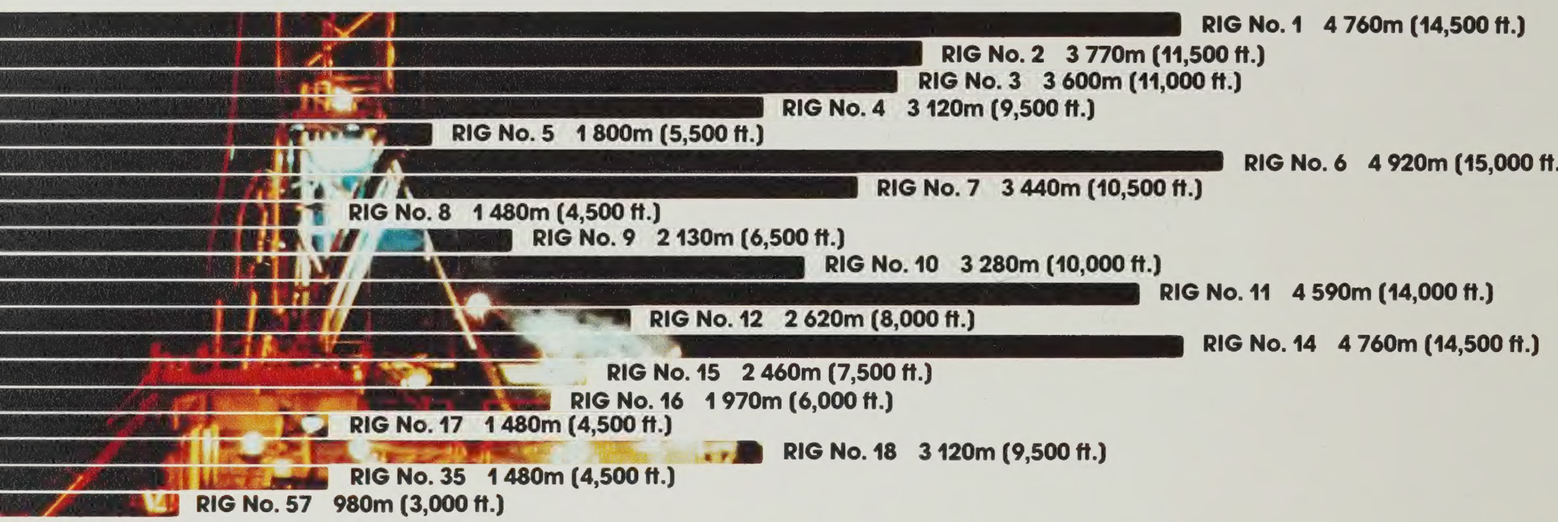
KENTING DRILLING
KENTING (U.K.) LIMITED

Capital investment in drilling equipment was increased substantially at mid year. Drilling operations in 1975 accounted for 40% of Kenting's total sales volume.

In February one 4 590m (14,000 ft.) rig was purchased followed in May by an additional six rigs ranging in depth capability from 1 675m (5,000 ft.) to 4 590m (14,000 ft.) thereby increasing our fleet by better than 50%. Kenting now owns 19 rigs; our largest is capable of drilling to 4 920m (15,000 ft.).

To provide an operations and servicing headquarters for the expanded division, design of a new building was begun in June 1975. Construction was completed by February 1976 and Nisku Industrial Park, south of Edmonton, is the site of the division's new complex.

KENTING DRILLING RATED RIG CAPACITY



A rig the size of rig 7 requires 25 truckloads to move to a drillsite, employs a crew of 16 men and requires an average of 30 days to complete a hole of 2 953 m (9,000 ft.) dependant on the geology of the area.

Kenting Drilling including the British operation, now employs an average of 300 people - an increase of about 30% over 1974 staff levels.

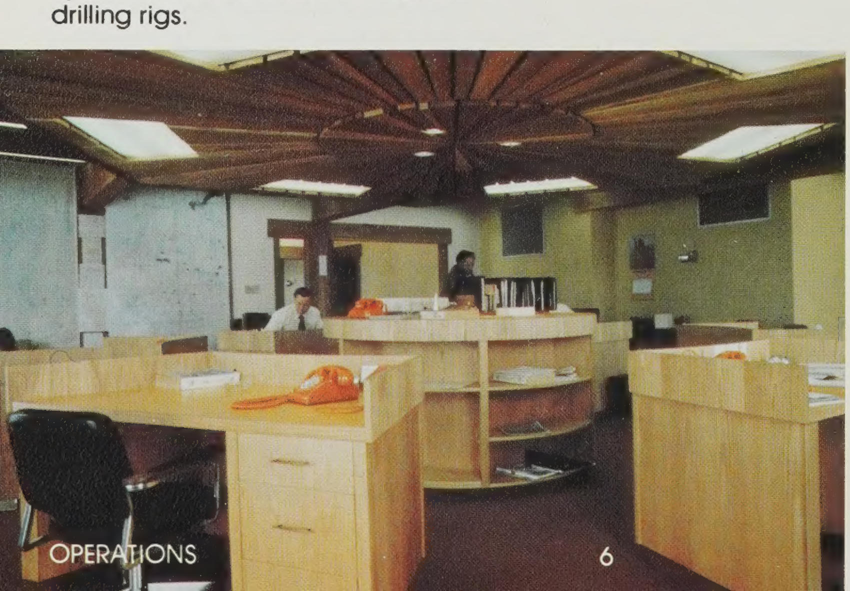
In Canada, during the 1975 season 111 shallow and 42 medium to deep wells were drilled, primarily in the traditional producing regions of Alberta. Most of the wells were drilled in the Hanna-Youngstown, Vegreville, Edson and Peace River areas while north-eastern British Columbia and the eastern Maritimes were supplementary activity regions.

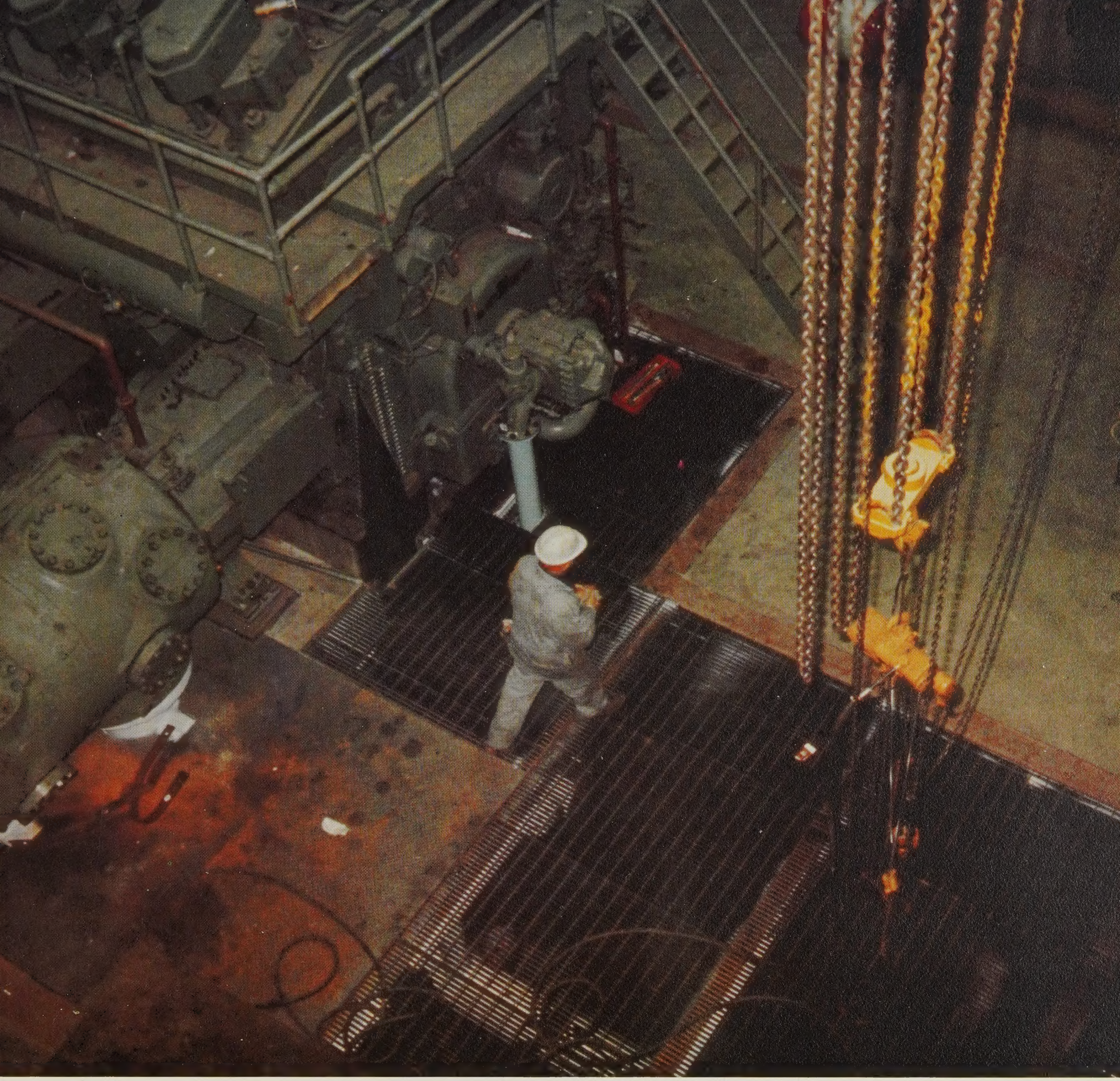
Overseas in the United Kingdom, Kenting (U.K.) Limited was incorporated. This British drilling subsidiary operates two rigs and has established a permanent offfce in Moortown, Lincolnshire.

One rig drilled 15 oil and gas wells across southeastern England for major clients. Early in 1976 a four month coal coring programme, to be undertaken in Wales, was awarded to this rig.

A second rig is coring in the Midlands, on contract to Britain's National Coal Board as part of the Board's programme to accelerate its search for additional coal reserves. This contract accounted for 18 test holes in 1975.

Drilling Co-ordinator Norm Kenworthy and Field Superintendent Lou Abel in Kenting Drilling's new open-plan operations centre. The centre was designed to facilitate communication among the staff responsible for the operation of the division's nineteen drilling rigs.





One of Kenting Oilfield's largest projects was the installation of this gas compressor rated at 200 million cubic feet per day/ 4,000 horsepower at Smoky Lake, Alberta. The huge 368,000 pound compressor dwarfs the man as work on the project nears completion.

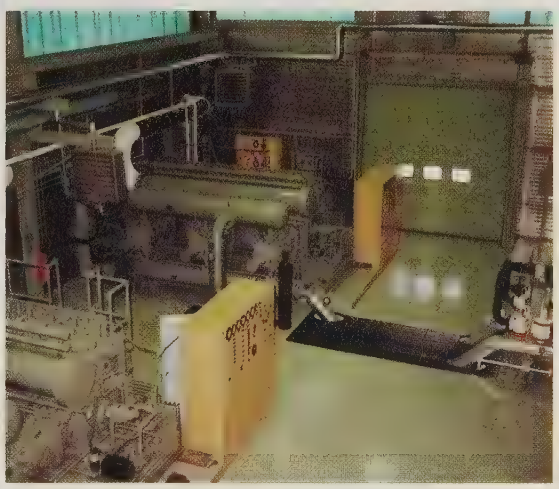
CONSTRUCTION AND PIPELINING

building hydrocarbon production facilities and pipelines for Canadian industry

At Pointed Mountain in the Northwest Territories Kenting Oilfield's crews install a section of a gas gathering system. The mountain is in the left background about five miles across the cloud filled valley.

Photo courtesy of Don Fox, Amoco Canada Petroleum Company Ltd.

Project Department personnel pour concrete foundation pads for the installation of three gas compressors in the Bantry Field of southeastern Alberta.



The completed station illustrates the quality workmanship of Kenting's construction staff.

Strobe beacons, manufactured by Technical Enterprise are part of their line of low intensity air strip lighting systems. The beacons assist pilots on approach to remote air fields.

A welding gang works on a section of twelve inch line, part of a gas gathering system in south east Alberta.

KENTING OILFIELD SERVICES
KENTING TECHNICAL ENTERPRISE

Kenting Oilfield Services has offices in Calgary and Edmonton. The division is divided into four departments, each concerned with a specific area of the hydrocarbon production industry.

The Pipelining Department was heavily committed to the buoyant natural gas gathering market during the 1975 construction season. As a consequence, our equipment pool has been expanded with the addition of backhoes, sidebooms and other construction equipment.

The gas field at Marten Hills, north of Edmonton was the site of the division's largest single project. Over 70 miles of gathering system, composed of two to twenty inch pipe, were laid in the heavily forested area. Several other gathering systems and well tie-in projects in Alberta contributed to make the year the busiest on record.

In contrast to work on the prairies Kenting's pipeline crews barged equipment down the Liard River, through the rugged MacKenzie mountains to complete a well tie-in operation at Pointed Mountain in the Northwest Territories.

The Projects Department, essentially an oilfield construction group, builds the facilities to move and purify natural gas - compressor stations, treatment plants and other similar facilities. The largest installation constructed in 1975 was a 200 million cubic feet per day/4000 HP compressor station at Smoky Lake. Several other stations constructed in Alberta range down in size to a three million cubic feet per day capacity. A brine pumping station, part of an LPG storage facility was completed near Kerrobert, Saskatchewan.

Routine maintenance services for a variety of existing hydrocarbon recovery facilities are provided from Kenting field offices, scattered through the major production regions of Alberta. These District offices furnish roustabout labour crews and provide services similar to the pipeline and projects departments but on a much smaller scale.

Technical Enterprise, the fourth department, markets and services standard electrical, pneumatic and hydraulic components used in the drilling and production segments of the industry. They also custom design low intensity air strip lighting systems and are moving into the industrial sector by marketing new lines of heat exchangers and compressors.

In total the division employs an average of 200 people.

KENTING EARTH SCIENCES
KENTING AFRICA RESOURCE SERVICES
KENTING EXPLORATION SERVICES

Kenting Earth Sciences, the most diverse of our divisions in terms of both markets and capabilities, is engaged in aerial photography and mapping, airborne geophysical surveys, ground control surveying and a variety of evaluation services for the forester, the agriculturalist and the urban planner. The division's operations are concentrated in North America and Africa.

Under contract to international aid agencies, national governments and private companies the division flew airborne geophysical surveys in Mali, the Ivory Coast, the United Arab Emirates, Zaire, Lesotho, Botswana and Brazil. An airborne profile recording project was completed in Saudi Arabia and mapping and ground control surveys were carried out in Tanzania. Land classification and agronomic study projects were designed for and carried out in the Ivory Coast. The studies will facilitate planning for land settlement policy.

In preparation for long term Canadian radioactivity surveys to be funded by the Federal Government, the division participated in initial testing programmes for new instrumentation standards.

The division's electronics engineering department completed the design and prototype construction of an innovative integrated geophysical data acquisition system. A test survey of 25,000 km, flown in Mali, using the spectrometer and magnetometer modes, yielded excellent results. The "Kenting Digital Spectrometer System", was designed both to meet rigid new specifications of the Geological Survey of Canada and to improve equipment serviceability. Following the successful field testing the division is now assembling five production models which will shortly be installed in our survey aircraft. A computer for use in the automatic compilation of digitally recorded airborne geophysical data has been located in the Ottawa offices.

Four new aircraft were added to the air survey fleet - two Cessnas and two Navajos. The pressurized Cessna 421 airphoto ship has a unique gyro-stabilized camera platform integrated with a Doppler navigation system. The navigation system itself has one active and two standby gyro-compasses. Much higher quality photography, more accurate navigation, and increased production are now possible. Sixteen aircraft, ranging in size from an Aztec to a DC-3 are operated by the division.

In the Ottawa Ontario headquarters a professional, technical and administrative staff averaging 185, compile geophysical maps, line maps and photo maps for a multiplicity of clients and applications.

The camel market in Kano Nigeria has existed as a trading centre for sub-Sahara Africa since Biblical times.

John Woolmer, a technician with Kenting Exploration examines a sample of the Beaufort Sea Floor. Samples were taken as part of an engineering study of offshore drill sites.

Jossy Okolie, a six year Kenting veteran is a secretary in the Lagos office of Kenting Africa Resource Services.

Other production centres, staffed by 20 technical specialists are located in Toronto and Calgary.

Kenting Africa Resource Services, whose capabilities complement those of the Ottawa Group, is based in Lagos and Kano. Most of the 200 employees are Nigerians.

A variety of services including airborne geophysics, airphoto and mapping along with ground survey are provided from these African bases.

Kenting was the first commercial survey firm to install Wild B8 stereoplotting equipment in Nigeria and to institute a training programme for operators. Nigerian staff are also being trained in photo

One of Kenting's Islander geophysical aircraft flies a magnetometer survey in the Ivory Coast. The object below and behind the plane is the sensor for the magnetometer.

GEOPHYSICS AND AERIAL PHOTOGRAPHY

locating and evaluating a variety of natural resources, worldwide.

laboratory processing techniques. Our expansion of the Kano office will provide the most modern processing facility in the country when construction is completed mid year. Two Wild B8 stereoplotters added during 1975 in Kano and Lagos have already substantially increased our production capacity and plans call for two further installations in 1976.

The office and photo labs in Lagos and Kano provide processing of African flown airphoto and handle ground survey operations in West Africa. Several project field offices are scattered throughout East and West Africa.

The change in service emphasis at Kenting Exploration, from the predominately marine seismic orientation of past years to land seismic and shallow marine engineering work, has led the division into new markets.

With the lessening of differences between the federal and provincial governments over resource taxation policy, land seismic survey activity in Alberta has rebounded from its recent historic low.

Kenting Exploration added two sets of seismic instruments and ancillary equipment during the year, to bring their crew complement to four. All crews are equipped with the latest generation of instanteous floating point digital seismic recording instruments. Field transport is provided either by four-wheel drive or tracked vehicles. The division's main areas of operation have been along the Foothills and in South Central Alberta.

One of the year's more innovative projects was an environmental data gathering programme in the Beaufort Sea. The data will be applied to offshore drilling programme design. Additional hydrographic investigations were carried out in the Tuktoyuktuk harbour to determine if water depths would be sufficient for berthing drilling ships.

Our computer technologists have assembled an improved digital system and designed the accompanying software to derive instantaneous position co-ordinates from radio navigation systems during marine engineering surveys.

For the mining geophysical market, the division has developed a successful high station density gravity survey technique to help validate sulphide occurrences in carbonate rocks.

Personnel have been added to the land seismic and marine engineering department to bring the average staff compliment to 100 professional and technical people.

The Kenting Digital Spectrometer System was designed and built by Kenting Earth Sciences. The system simultaneously records several types of geophysical data and is used as a spectrometer in uranium prospecting.

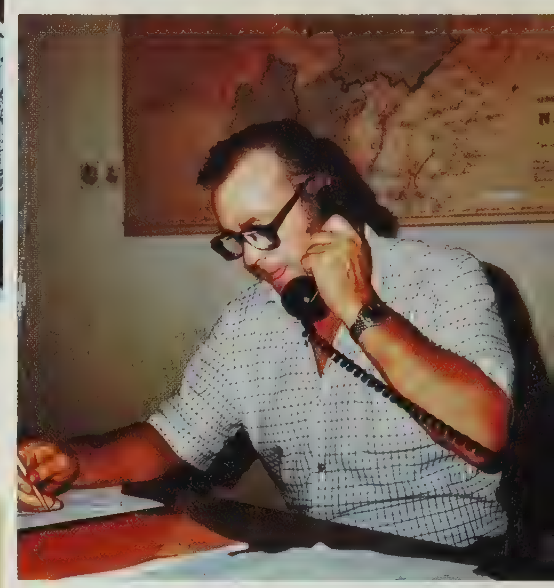
A new Cessna 402 has been modified in the Earth Sciences' Ottawa hangar for airphoto survey work. The camera mounting system will accept any aerial camera; the navigation system is Decca-Doppler and the aircraft's range has been extended to seven and one-half hours with the addition of long range fuel tanks.

Seismic observer/operator Dave Szaroz, performs final checks on Kenting Exploration's new DFS-5 seismic recording system. The equipment is the latest generation of digital hardware — highly portable, compact and reliable.

Ita Umana is a stereoplotter operator in Lagos. The two aerial photographs in his left hand are placed in the plotter yielding a three dimensional image from which he then produces contour maps.

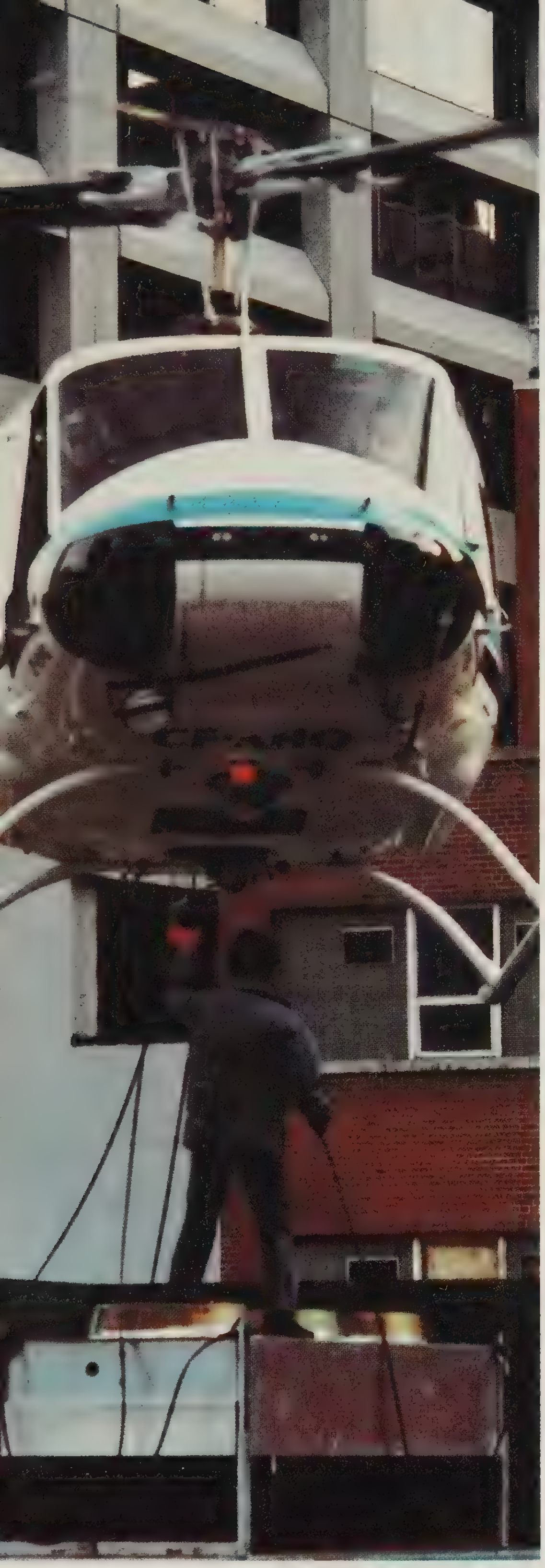
Martin Cole, a geophysical technologist and programmer at Kenting Exploration, uses the division's new desk-top computing calculator system in the processing and interpretation of various types of geophysical data.

Photogrammetrist Rufus Talabi from our Kano office does field checks as part of a major mapping programme for the City of Lagos.



Geographer Jock Donaldson, an experienced overseas operations man, is Kenting Africa's Managing Director in Lagos. He has worked in various African Nations, South America and the Middle East, lectured in photogrammetry and airphoto interpretation at the University of Malaysia and was a land use specialist for the Colombo Plan.

Kenting Exploration's Operations supervisor Klaus Schulte spent part of the summer updating the National Gravity Network — part of a Federal Government programme to expand gravity data coverage across the country.



A Bell 205A, flown by Kenting's Chief Pilot Keith Ostertag, prepares to lift an industrial air conditioner to the roof of one of Calgary's new high rise office towers.

After overhauls, Klondike's machines lined up outside the Calgary hangar ready to go back into the field.

KENTING KLONDIKE HELICOPTERS

Klondike Helicopters' major contract, logistics support for the federal government's extensive Polar Continental Shelf Project in the Arctic, utilized five machines for five months of 1975. The contract will continue through the 1977 season.

In Northern Alberta, two Bell 206B machines under contract to the Alberta Forestry Service were employed in timber cruising, land use inspection, fire suppression and resupply missions.

Two heli-drill and personnel transport operations in the MacKenzie Corridor used an S-58 and a Hiller FH-1100 during the summer. The drills were sampling soil conditions along the proposed pipeline route.

On Somerset Island in the Arctic a 206B and an FH-1100 were engaged in mining survey work.

Late in the year the division re-entered the power line construction field from which Kenting had been absent for several years.

During the 1974-75 winter off season the division acquired damaged FH-1100, Bel 205A and 206B machines. Engineers rebuilt these machines and upgraded one Sikorsky S58 from military to commercial classification. These machines joined the fleet for the operating season.

The division's Calgary base is staffed by a total of fifty pilots, engineers, technical and administrative personnel. Fourteen of the seventeen machines in the fleet are turbine powered.

The division directs a Ministry of Transport flight training course for aspiring pilots. Graduates emerge as well trained, safety conscious pilots, many of whom have remained to work for Kenting.

Ray Brackenbury, flying a Bell 206B, weighs a tranquilized Barren-Land Grizzly bear in the Mackenzie Delta. A Canadian wildlife service biologist notes the bear's weight on the scale suspended below the cargo hook.

Another Bell 205A, assigned to the three year Polar Continental Shelf Project, lands to take on fuel at one of the many caches scattered through the Arctic Islands.

HELICOPTERS

serving Canadian mining, petroleum and environmental interests with dependable helicopter transport.

FINANCIAL REVIEW

T. A. Jones - Vice President, Finance

1975 gross revenue amounted to $42,399,000 as compared to $30,450,000 in 1974. Each area of our present operations contributed to the increase. Percentage revenue increases over 1974 were as follows: Drilling - 75%, Mapping and Geophysical - 40%, Helicopters - 38% and Oilfield Construction - 20%. The statement of income includes revenue of the Resolute, N.W.T. fixed-wing commercial air service business up to September 1, 1975, the date on which we decided to terminate the operation. This revenue amounted to $1,706,000 for the 1975 eight month period and $2,823,000 for the twelve months ended December 31, 1974.

The higher level of business activity led to increased operating costs and sales, administration and general expenses. Inflationary pressures with respect to suppliers' prices and employees' compensation also contributed to the increase. However, operating costs expressed as a percentage of revenue were 72% in 1975 as compared to 75.3% in 1974. Sales, administration and general expenses decreased from 11% of revenue in 1974 to 9.9% in 1975. The 1975 increases in depreciation and term debt interest are attributable to the expansion of our investment in property and equipment and the partial financing of the expansion by long-term borrowing. Gains on disposal of property and equipment, which are somewhat unpredictable on a year to year basis, were $488,000 in 1975. This is $319,000 less than the gains recorded in 1974.

Purchases of property, plant and equipment amounted to $8,521,000, a record level for Kenting. The necessary funds were provided by a $4,100,000 term debt financing, the sale of uneconomic divisions and equipment for $2,730,000 and the utilization of $1,691,000 of internally generated cash flow. $2,053,000 of cash earnings was used to strengthen our working capital position. A further $717,000 was allocated to the payment of dividends and the purchase for cancellation of Kenting Limited preferred shares. Pre-1975 term debt, which excludes the $4,100,000 financing referred to above, was reduced by $1,677,000.

Our financial position improved during 1975. Some of the more significant balance sheet figures and ratios are set out below. Dollar amounts are stated in thousands.

	December 31 1975	December 31 1974
Working capital	**$ 4,104**	$ 2,051
Current assets/current liabilities	**1.39:1**	1.26:1
Net book value of property and equipment	**$13,562**	$ 9,493
Goodwill	**$ 291**	$ 1,419
Net tangible assets (see definitions below) /term debt	**2.8:1**	2.6:1
Term debt	**$ 6,598**	$ 4,331
Shareholders' equity	**$ 8,552**	$ 6,580
Invested capital (see definitions below)	**$16,333**	$ 12,456
Current and term debt as a percentage of invested capital	**47.6%**	47.2%

DEFINITIONS:

NET TANGIBLE ASSETS — total assets excluding goodwill less current liabilities and provision for aircraft overhauls.

INVESTED CAPITAL — bank advances, term debt (including current portion) and shareholders' equity.

Working capital held in Nigeria increased from $834,000 at December 31, 1974 to $1,445,000 at December 31, 1975, primarily because of a higher level of activity in that country. Kenting Africa Resource Services' revenues during its traditionally busy fourth quarter amounted to $1,264,000, an increase of $470,000 over the comparable period in 1974. Consequently accounts receivable and work in progress stood at relatively high levels at the year end. It should be noted that the increase in working capital has been financed mainly by cash flows generated in Nigeria. Also, arrangements have been made to increase Kenting Africa Resource Services' bank line of credit in order to finance increased work volumes.

Dividends on preferred shares were brought up to date in April, 1975 and have since been continued on a regular basis. Common share dividend payments were reinstated and a dividend of 36¢ per share was paid on December 31, 1975. The payment was restricted to the amount allowed by the Federal Anti-Inflation Board.

Offers were made during 1975 to purchase the Company's outstanding $12.50 par value Class A Preferred Shares and $30.00 par value Class B Preferred Shares. The entire outstanding balance of 4,872 Class A Shares was obtained at a price of $9.00 per share and 8,700 Class B Shares were acquired for $20.00 per share. Both classes of shares earned cumulative dividends at a rate of 6% per annum. Given the purchase price at which they were available, and the fact that dividends are not deductible for income tax purposes, the shares represented an expensive form of financing.

A $1,652,000 6% debenture was purchased for $1,207,000 and refinanced with bank term debt proceeds. Debenture payments were geared, in part, to cash flows earned by one of our divisions. The amount of the discount and the probable acceleration of required payments under the debenture equated the purchase with investing funds to earn a pre-tax return of approximately 30% per year. The accounting gain of $445,000 has been deferred and will be taken into income over the 3.1 year term of the refinancing debt incurred.

The Federal Government's recently announced Anti-Inflation Guidelines constitute another parameter within which our operations must be conducted. A great deal of time and effort has been expended in educating ourselves as to the program's requirements in order to achieve proper implementation of the Guidelines as applied to Kenting Limited. Additional staff has been engaged so that we can cope with the considerable filing requirements for each of our divisions.

It is our understanding, through discussions at Anti-Inflation Board sponsored seminars, that businesses will not be forced to restrict earnings to unrealistic base period levels. This should be particularly true in our case since our improved earnings are largely attributable to increased capital investments and management reorganization. Improved markets are a third factor which have enabled Kenting Limited to earn a more reasonable return on investment.

We hope that this discussion will enable you to better understand the Company's operations.

CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31	
	1975	1974
Revenue (Note 7)	**$42,399,204**	$30,450,378
Net operating costs	**30,526,733**	22,926,939
Sales, administration and general expenses	**4,188,892**	3,361,864
Interest:		
Current	**161,614**	193,175
Term debt	**642,601**	541,838
Provision for depreciation	**2,020,205**	1,663,772
Gain on disposal of property and equipment	**(487,864)**	(806,865)
	37,052,181	27,880,723
Operating income	**5,347,023**	2,569,655
Provision for income taxes:		
Current	**1,092,874**	340,386
Deferred	**1,480,110**	894,737
	2,572,984	1,235,123
	2,774,039	1,334,532
Minority interest in net income of subsidiary company	**84,268**	1,320
Income before extraordinary item	**2,689,771**	1,333,212
Extraordinary item	**—**	58,009
Net income for year	**$ 2,689,771**	$ 1,391,221
Earnings per share (Note 8):		
Income before extraordinary item	**$3.38**	$1.62
Net income for year	**$3.38**	$1.69

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31 1975	1974
CURRENT		
Cash, including term deposits	**$ 1,254,469**	$ 283,165
Accounts receivable	**9,730,120**	7,370,443
Notes receivable	**734,266**	—
Inventory of materials and supplies, at lower of cost or replacement cost	**889,635**	776,849
Equipment held for resale, at lower of cost or estimated realizable value	**—**	214,976
Contracts and work in progress in excess of billings	**1,737,063**	849,332
Prepaid expenses	**281,025**	366,195
	14,626,578	9,860,960
INVESTMENTS IN OTHER COMPANIES AND JOINT VENTURE	**515,838**	413,527
ASSETS OF DISCONTINUED OPERATIONS (Note 11)	**544,211**	—
PROPERTY AND EQUIPMENT, at cost (Note 2)	**22,512,478**	17,682,068
Less - Accumulated depreciation	**(8,950,420)**	(8,188,913)
	13,562,058	9,493,155
OTHER	**144,210**	105,234
GOODWILL	**291,085**	1,418,807
	$29,683,980	$21,291,683

APPROVED BY THE BOARD:

[illegible]
Director

S W Armstrong
Director

LIABILITIES

	December 31 1975	1974
CURRENT		
Bank advances	**$ 125,976**	$ 375,000
Accounts payable and accrued	**7,167,859**	5,371,263
Income taxes payable	**938,861**	99,898
Contract advances	**1,232,237**	794,350
Term debt due within one year	**1,057,367**	1,169,491
	10,522,300	7,810,002
TERM DEBT (Note 3)	**6,597,702**	4,331,224
DEFERRED INCOME (Note 3)	**445,127**	—
DEFERRED INCOME TAXES (Note 4)	**2,813,894**	1,810,429
PROVISIONS FOR ACCRUED COSTS (Note 1)	**647,408**	739,083
MINORITY INTEREST IN SUBSIDIARY COMPANY	**105,326**	21,058
	21,131,757	14,711,796

SHAREHOLDERS' EQUITY

	1975	1974
CAPITAL STOCK (Note 5):		
— 6% cumulative redeemable Class A preferred shares of a par value of $12.50 each (Authorized - 4,872 shares)	**—**	60,900
3,300 6% cumulative redeemable Class B preferred shares of a par value of $30.00 each (Authorized - 12,000 shares)	**99,000**	360,000
28,166 6% cumulative redeemable Class C preferred shares of a par value of $33.50 each (Authorized - 150,000 shares, issuable in series)	**943,561**	943,561
773,917 common shares of a par value of 50¢ each (Authorized - 2,000,000 shares)	**386,959**	386,959
PAID IN SURPLUS (Note 5)	**3,649,762**	3,545,709
RETAINED EARNINGS (Note 5)	**3,472,941**	1,282,758
	8,552,223	6,579,887
COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)		
	$29,683,980	$21,291,683

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the year ended December 31	
	1975	1974
Retained earnings (deficit), beginning of year	**$ 1,282,758**	$ (108,463)
Net income for year	**2,689,771**	1,391,221
	3,972,529	1,282,758
Less - Dividends:		
Class A Preferred	**10,962**	—
Class B Preferred	**64,800**	—
Class C Preferred	**145,216**	—
Common	**278,610**	—
	499,588	—
Retained earnings, end of year	**$ 3,472,941**	$ 1,282,758

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the year ended December 31	
	1975	1974
Source of working capital		
Revenue	**$42,399,204**	$30,450,378
Less - Net operating costs (excluding net provisions for accrued costs), sales, administration and general expenses, interest and current taxes	**36,300,181**	27,192,038
Working capital provided from operations	**6,099,023**	3,258,340
Proceeds from property and equipment disposals	**2,729,808**	2,028,436
Term borrowing	**5,400,000**	—
	14,228,831	5,286,776
Use of working capital		
Additions to property and equipment	**8,520,701**	3,627,090
Decrease in term debt	**2,688,395**	1,256,614
Dividends paid	**499,588**	—
Purchase of Class A and Class B preferred shares	**217,847**	—
Other, including investment in joint venture	**248,980**	160,512
	12,175,511	5,044,216
Increase in working capital	**2,053,320**	242,560
Working capital, beginning of year	**2,050,958**	1,808,398
Working capital, end of year	**$ 4,104,278**	$ 2,050,958

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1975

NOTE 1. ACCOUNTING POLICIES:

Principles of consolidation
The consolidated statements include the accounts of Kenting Limited and its subsidiaries all of which, except for its Nigerian subsidiary, are wholly-owned.

Certain 1974 figures have been reclassified to conform with the 1975 presentation.

The Company's investment in an unincorporated joint venture is carried on an equity basis (see Note 11). The consolidated statement of income includes the Company's share of revenues and expenses of the joint venture. Joint venture profits did not materially affect 1975 earnings. Other investments are carried at cost, less amounts written off.

Foreign exchange
The accounts of foreign subsidiaries have been translated into Canadian dollars; current assets and liabilities at the December 31, 1975 exchange rate, other balance sheet items and related depreciation at the historical exchange rate, and revenues and other expenses at the average exchange rate for the year. Working capital of the Nigerian subsidiary, which is subject to foreign exchange control regulations, amounted to approximately $1,445,000 at December 31, 1975 (1974 - $834,000).

Contracts and work in progress
The Company follows the practice of recording income from contracts under the percentage-of-completion method of accounting. Any anticipated losses are provided for in their entirety.

Property and equipment
The Company considers certain leases of capital property, because of the terms of such leases, to be purchases. The discounted values of future rental and purchase option payments under these leases are included in property and equipment and the related commitments are included in liabilities.

Depreciation rates are applied on a reducing balance basis and will amortize costs, less estimated salvage values, over the estimated economic service lives of the respective assets.

Goodwill
In the opinion of management there is no indication of a decline in value of goodwill (the cost of investment in subsidiaries in excess of fair values assigned to identifiable net assets at date of acquisition) and accordingly it is not being amortized. Goodwill has been reduced by income tax reductions (1975 - $476,645; 1974 - $106,303) occasioned by the utilization of pre-acquisition losses of a subsidiary and, as explained in Note 11, by an amount of $651,077 which relates to discontinued operations.

Provisions for accrued costs
Provisions for accrued costs amounted to $647,408 at December 31, 1975 (1974 - $739,083). Provisions are made (by charges to income based upon levels of operating activity) for estimated future liabilities relating to major overhauls of aircraft and helicopters and for costs which are occasionally incurred because of unpredictable delays in carrying out drilling contracts. Actual costs, when incurred, are charged against the appropriate provision to the extent of that provision.

NOTE 2. PROPERTY AND EQUIPMENT:

	Depreciation rates, mainly	1975	1974
Aircraft and helicopter	9% to 15%	$ 3,248,420	$ 5,679,977
Drilling	9% to 33%	11,960,801	6,668,134
Mapping and geophysical	9% to 45%	5,521,989	3,852,922
Oilfield construction	24% to 33%	1,729,268	1,429,035
Other		52,000	52,000
		22,512,478	17,682,068
Less - Accumulated depreciation		8,950,420	8,188,913
		$ 13,562,058	$ 9,493,155

NOTE 3. TERM DEBT:

		1975	1974
Bank loans, evidenced by demand notes, being repaid in monthly installments of $75,000 together with interest at 1% above the prime rate, secured by floating charge debentures, certain drilling rigs and accounts receivable		$ 2,829,979	$ 2,277,487
7-1/2% Convertible sinking fund debentures	(i)	525,000	750,000
6% Note repayable in January, 1977		200,090	200,090
Debenture, secured, with interest at 1% above the prime rate	(ii)	4,100,000	—
6% Debenture, secured	(iii)	—	1,834,545
Capitalized lease purchase agreements, secured		—	438,593
		7,655,069	5,500,715
Less - Payments due within one year included in current liabilities		1,057,367	1,169,491
		$6,597,702	$ 4,331,224

(i) 7-1 2% Convertible sinking fund debentures Series A, due May 15, 1980, requiring annual sinking fund payments of $75,000 in 1977 and $100,000 in 1978 and 1979. Each $1,000 principal amount is convertible into 46 common shares to May 15, 1978 subject to anti - dilution terms and is redeemable at a reducing premium otherwise than out of the sinking fund. The debentures are not secured by any mortgage, pledge or charge. Covenants contained in the debentures preclude certain transactions (including the issuance of term debt, the payment of dividends, the sale of certain assets and the reduction of capital stock) unless specific conditions are met.

(ii) Debenture, repayable in annual installments as follows: $157,000 in 1976, $200,000 in 1977, $500,000 in 1978 and $600,000 from 1979 to 1983, beginning January 15, 1976 with payment of remaining balance due January 15, 1984, secured by fixed charges upon certain drilling rigs. Accelerated payments are required if average drilling days as defined in the debenture exceed certain levels.

(iii) Deferred income of $445,127 represents a gain on redemption of the 6% debenture. Bank loans were obtained, at current interest rates, in order to effect the redemption. The gain will be realized over the term of the bank loans.

(iv) Annual payments due on term debt:

1976	$ 1,057,367
1977	1,375,090
1978	1,500,000
1979	829,979
1980	850,000
Thereafter	2,042,633
	$7,655,069

NOTE 4. INCOME TAXES:

Certain subsidiaries have an aggregate of approximately $845,000 of unclaimed tax losses available of which $233,000 expire during the years 1976 to 1978. Anticipated benefits from future utilization of these losses have not been recognized in the accounts.

NOTE 5. SHAREHOLDERS' EQUITY:

The following table outlines the changes in Class A and B preferred shares and paid in surplus during the year ended December 31, 1975:

	Class A Preferred shares		Class B Preferred shares		
	Shares	Par value	Shares	Par value	Paid in surplus
Balance, December 31, 1974	4,872	$ 60,900	12,000	$ 360,000	$3,545,709
Purchased for cancellation (at $9.00 cash per share)	(4,872)	(60,900)			17,053
Purchased for cancellation (at $20.00 cash per share)			(8,700)	(261,000)	87,000
	—	$ —	3,300	$ 99,000	$3,649,762

Preferred shares

Class C preferred shares outstanding at December 31, 1975 are as follows - first series - 9,000 shares, par value $301,500; second series - 7,460 shares, par value $249,910; third series - 11,706 shares, par value $392,151.

Preferred shares are convertible into common shares as follows:

Class C second series to May 1, 1977 on the basis of 2.65 common shares for each share. Class C third series from January 1, 1983 to December 31, 1987 on the basis of average December, 1982 common share quotations.

Class B preferred shares and Class C preferred shares (first and second series) are redeemable at annually reducing premiums which do not exceed 4.5% in 1976. Class C preferred shares (third series) are redeemable at par.

The Company has reserved 79,569 common shares for the possible conversion of debentures and preferred shares.

Retained earnings

Under Section 62 of the Canada Corporations Act, $217,847 of retained earnings is designated as capital surplus on the purchase for cancellation of 4,872 Class A preferred shares and 8,700 Class B preferred shares.

NOTE 6. COMMITMENTS AND CONTINGENT LIABILITIES:

The Company is obligated under premises lease agreements to pay annual rentals of approximately $191,000 in 1976 decreasing to approximately $20,000 in 1982.

The Company is contingently liable for the usual liabilities of contractors, indeterminate in amount, for completion of contracts.

NOTE 7. REVENUE:

The revenue resulting from the operation of each of the Company's main classes of business, expressed as a percentage of total revenue, was as follows:

	1975	1974
Drilling	40%	32%
Mapping and geophysical	32%	31%
Oilfield construction	18%	21%
Aircraft and helicopters	10%	16%
	100%	100%

NOTE 8. FULLY-DILUTED EARNINGS PER SHARE:

If it were assumed that the shares reserved for possible conversion of senior shares and debt had been issued as at January 1, 1975 the earnings per share for 1975 would have been $3.13.

NOTE 9. REMUNERATION OF DIRECTORS AND OFFICERS:

	1975		1974	
	Number	Total	Number	Total
Directors	10	$ 29,583	10	$ 21,833
Officers	7	221,791	7	157,323
		$251,374		$179,156

Officers who were also directors: 1975 - 2; 1974 - 2.

NOTE 10. ANTI-INFLATION PROGRAM:

The Company (with the exception of its foreign subsidiaries and branches) is subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. At this time there are a number of general uncertainties concerning implementation of the program so that the impact on the Company's future operations cannot be accurately determined. The Company has used its best efforts to comply with the guidelines since their announcement.

NOTE 11. DISCONTINUED OPERATIONS:

In September 1975, the decision was made to discontinue the operations of the fixed-wing charter aircraft division (Kenting Aviation). Certain assets of the division have been sold, and the operating licenses are to be transferred. The net book value of the division's fixed assets together with related goodwill ($651,077), reduced by proceeds of dispositions to date (approximately $1,904,000), have been reclassified as "Assets of Discontinued Operations". It is anticipated that the remaining carried value of $544,211 will be recovered through the sale of the remaining assets and that no material gain or loss will result. The consolidated statement of income includes the following with respect to this division:

	For the year ended December 31	
	1975	1974
Revenue	$1,706,202	$2,823,142
Net income (loss) for year	$(99,223)	$4,441

Subsequent to December 31, 1975 the DrillArctic Joint Venture was terminated and the Company's equity in the Joint Venture was realized.

Negotiations are underway to dispose of the assets of the Company's mining exploration drilling department (Big Indian Drilling). The fiscal 1975 operations of these rigs did not result in a material loss. No material gain or loss is expected to result from the disposition.

NOTE 12. POSSIBLE ACQUISITION:

The Company is a 50% participant in a newly formed corporation which offered, on March 8, 1976, to purchase all of the shares of Alberta Petroleum & Resources Ltd., a Calgary-based public company. The purchase is conditional mainly upon 69.85% of the shares being delivered for sale. Should 100% of the shares be obtained, the Company's portion of the acquisition cost will amount to approximately $650,000. Assets of Alberta Petroleum & Resources Ltd. consist primarily of Canadian petroleum properties and its liabilities include a bank production loan. The Company's share of these liabilities will approximate $450,000.

AUDITORS' REPORT

To the Shareholders of
KENTING LIMITED:

We have examined the consolidated balance sheet of Kenting Limited and subsidiaries as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

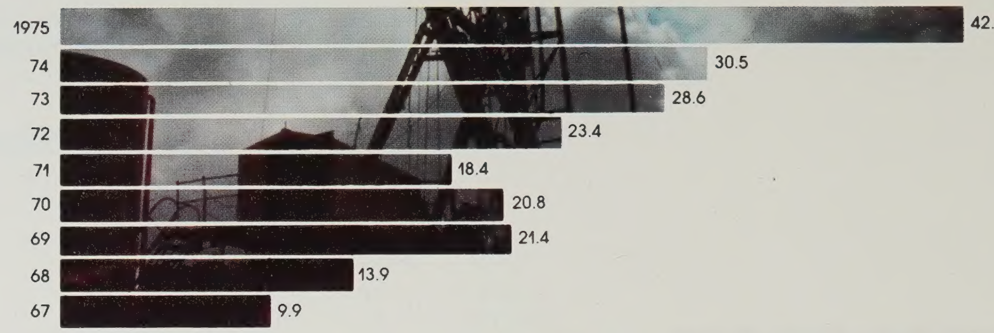
Calgary Alberta
March 8, 1976

Price Waterhouse & Co.

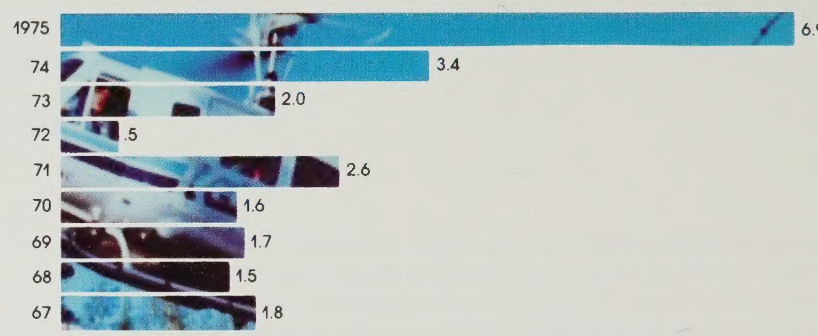
Chartered Accountants

LOSS | EARNINGS

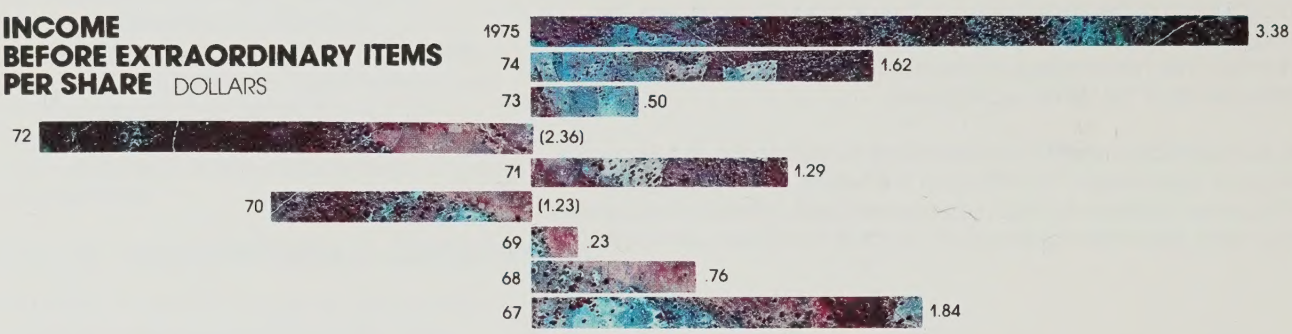
REVENUE
MILLIONS OF DOLLARS



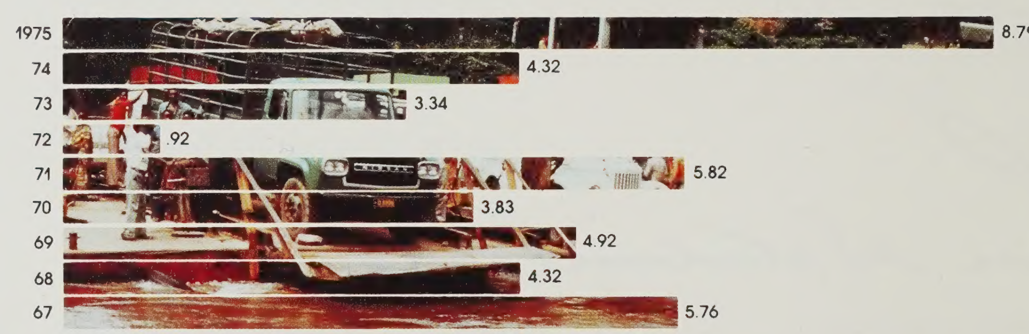
CASH FLOW FROM OPERATIONS (before income taxes)
MILLIONS OF DOLLARS



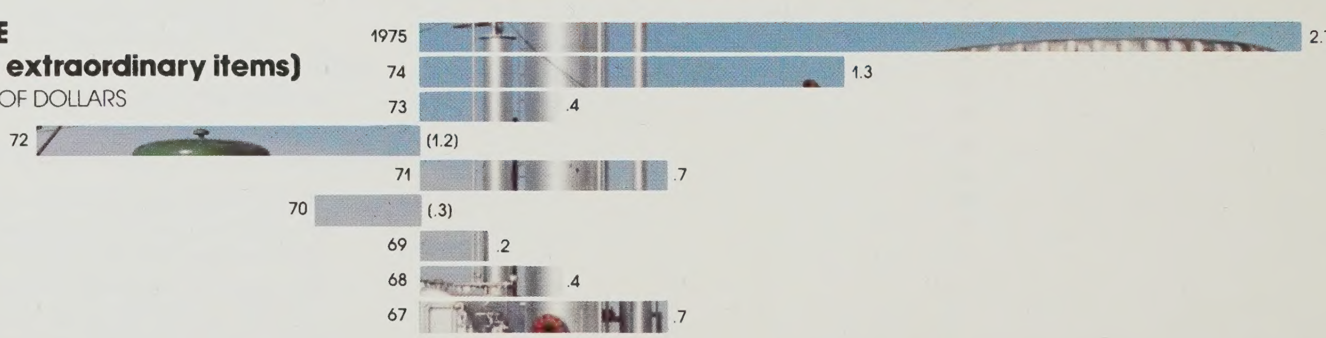
INCOME BEFORE EXTRAORDINARY ITEMS PER SHARE DOLLARS



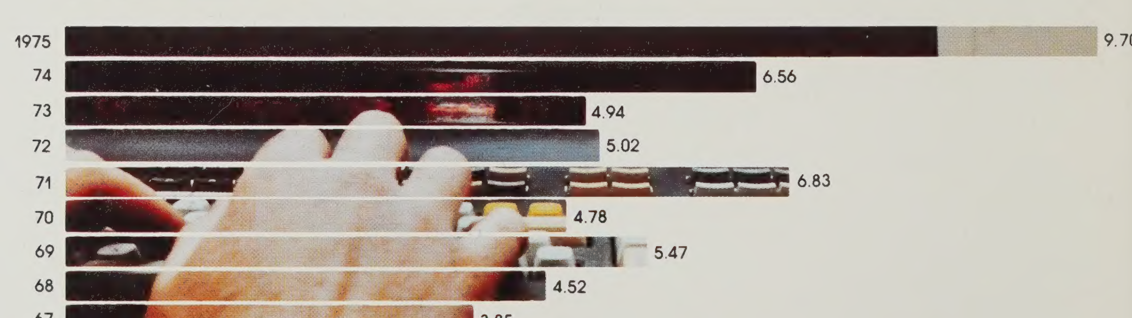
CASH FLOW PER SHARE
DOLLARS



INCOME (before extraordinary items)
MILLIONS OF DOLLARS



EQUITY PER SHARE
DOLLARS



KENTING LIMITED

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CORPORATE PROFILE:

Kenting is a technical group of Canadian service companies engaged in the identification of natural and human resources.

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KENTING LIMITED AND SUBSIDIARIES

YEAR END FINANCIAL POSITION (in thousands)

	1975	1974	1973	1972	1971	1970	1969	1968	1967(1)
Working capital	$ 4,104	2,051	1,808	(128)	1,401	(207)	(241)	1,086	331
Fixed assets, cost	$ 22,512	17,682	17,221	16,960	12,079	14,404	14,961	10,907	8,561
Accumulated depreciation	$ (8,950)	(8,189)	(8,467)	(7,735)	(6,118)	(5,918)	(4,993)	(4,246)	(3,274)
Net	$ 13,562	9,493	8,754	9,225	5,961	8,486	9,968	6,661	5,287
Term Debt	$ 6,598	4,331	5,588	5,862	2,215	2,903	4,049	3,710	2,621
Common shareholders' equity	$ 7,510	5,076	3,824	2,770	3,333	1,945	1,782	1,435	1,115

EARNINGS PER SHARE

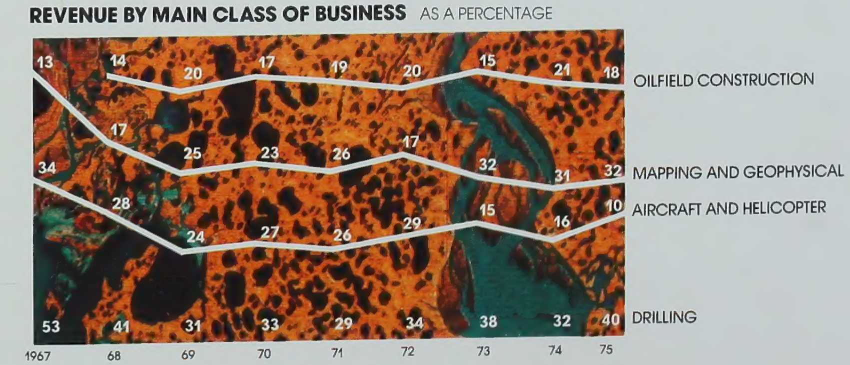
	1975	1974	1973	1972	1971	1970	1969	1968	1967(1)
Earnings per common share (after provision for preferred share dividends):									
Cash flow from operations	$ 8.79	4.32	3.34	.92	5.82	3.83	4.92	4.32	5.76
Income (loss) before extra-ordinary items	$ 3.38	1.62	.50	(2.36)	1.29	(1.23)	.23	.76	1.84
Net income (loss)	$ 3.38	1.69	(.17)	(2.38)	.91	(2.14)	1.54	1.11	2.08
Weighted average number of shares outstanding	773,917	773,917	562,052	535,582	427,206	389,921	323,044	309,585	286,823
Provision for preferred share dividends	$ 77,040	81,868	80,771	53,204	121,048	136,106	146,190	146,190	146,190
Fully diluted earnings (loss) per common share:									
Income (loss) before extra-ordinary items	$ 3.13	1.50	.50	(2.36)	1.12	(1.23)	.45	.71	1.36
Net income (loss)	$ 3.13	1.57	(.17)	(2.38)	.85	(2.14)	1.20	.92	1.49
Dividends per share paid:									
Common	$ .36	—	—	—	—	—	—	.30	.30
Class A preferred	$ 2.25	.375	—	.375	1.875	—	.375	.75	.022
Class B preferred	$ 5.40	.90	—	.90	4.50	—	.90	1.36	—
Class C preferred									
— first series	$ 6.03	—	—	2.01	5.025	—	—	.38	—
— second series	$ 6.03	.253	—	—	—	—	—	—	—
— third series	$ 3.926	—	—	—	—	—	—	—	—

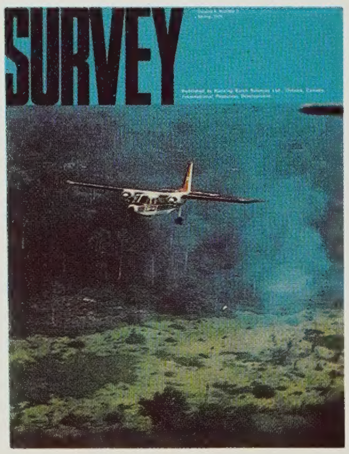
(1) 1967 is restated to give effect to a 1968 business combination accounted for as a pooling of interests. Income in that year has been reduced by the amount of net income applicable to the purchase portion of a subsidiary company combined on a partial pooling of interests basis.

OPERATING RESULTS (in thousands)

	1975	1974	1973	1972	1971	1970	1969	1968	1967(1)
Revenue	$ 42,399	30,450	28,586	23,418	18,397	20,821	21,419	13,856	9,855
Net operating costs, sales, administration and general expenses and current interest	34,877	26,482	26,106	22,559	15,545	18,728	19,182	12,095	7,911
Interest on term debt	643	542	522	312	243	463	501	277	145
	35,520	27,024	26,628	22,871	15,788	19,191	19,683	12,372	8,056
Cash flow from operations	6,879	3,426	1,958	547	2,609	1,630	1,736	1,484	1,799
Depreciation, depletion and amortization	2,020	1,664	1,864	2,337	1,337	2,116	1,047	738	613
Loss (gain) on disposal of property and equipment	(488)	(807)	(600)	65	(64)	16	(11)	(52)	(56)
	1,532	857	1,264	2,402	1,273	2,132	1,036	686	557
Operating income (loss)	5,347	2,569	694	(1,855)	1,336	(502)	700	798	1,242
Income taxes provided (recovered):									
Current	1,093	340	(223)	87	295	(40)	29	110	76
Deferred	1,480	895	557	(733)	370	(121)	450	307	422
	2,573	1,235	334	(646)	665	(161)	479	417	498
	2,774	1,334	360	(1,209)	671	(341)	221	381	744
Portion of net income of pooled companies applicable to purchase	—	—	—	—	—	—	—	—	70
Minority interest in net income of subsidiary company	84	1	—	—	—	—	—	—	—
Income (loss) before extraordinary items	2,690	1,333	360	(1,209)	671	(341)	221	381	674
Extraordinary items	—	58	(375)	(13)	(163)	(355)	422	109	68
Net income (loss)	$ 2,690	1,391	(15)	(1,222)	508	(696)	643	490	742

REVENUE BY MAIN CLASS OF BUSINESS AS A PERCENTAGE





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